

## **Farmer Education Program (PEPA) Resource Guide**

### **Business Planning**



## **Agriculture & Land-Based Training Association (ALBA)**

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## **Module: Business Planning**

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## Considerations for Your Farm Business

### ***Can I make enough money farming?***

Income is by far the most common concern among new and beginning farmers. There is no doubt that historically farmers can experience difficult times financially. However, there are farmers who run profitable operations, even on small acreages.

#### **Strategies:**

- **Determine your financial needs.** You may want to develop a personal or family budget to determine how much income you require. See *Exploring the Small Farm Dream* or *Tilling the Soil of Opportunity*, listed below, for guidance.
- **Develop or tighten up your farm business plan.** Economic pressures require that farmers pay more attention than ever to the business aspects of farming. Several courses and publications can help. *Tilling the Soil of Opportunity* is an excellent resource.
- **Consider farming part-time,** at least initially, or relying on an off-farm job for yourself or another family or farm team member. Remember that in any industry, new businesses are unlikely to turn a profit in the first few years. Nationally, more than half of all farm family income comes from off-farm sources.

### ***How do you manage cash flow without a steady paycheck?***

Many people make the transition to farming from jobs where they received a steady paycheck. In operations such as vegetable farms, there are high expenses in spring but no income until mid-summer or fall. This can make it difficult to pay the bills!

#### **Strategies:**

- **Learn sound financial management.** Training in financial management can help you plan ahead and use your money wisely.
- **Obtain operating loans.** Many farmers rely on loans to provide operating capital to make it through the season.
- **Consider starting a Community Supported Agriculture strategy.** This marketing strategy addresses seasonal cash flow difficulties. Customers pay ahead and buy a “share” of produce in winter or early spring, and then pick up their food weekly throughout the growing season. Some innovative farmers are adapting this strategy for meats and other farm products.

### ***Can farming provide financial security for my family?***

Financial security means different things to different people. In addition to basic income, it may include savings, retirement planning, and life insurance.

#### **Strategies:**

- **Determine what financial security means for you and your family and/or farm team.** You can't know if farming could provide it unless you know what you need!
- **Make sure your business plan addresses retirement and other savings needs.** Be deliberate about planning for the long-term.
- **Agree that a family member will hold an off-farm job.** You may find that farming part-time or having some family members continue with off-farm jobs provides important stability to offset the uncertainties of farming.
- **Develop a will or other estate plan** to provide for the long-term security of your family, and the future of your farm business.

### ***Consider insuring your farm revenue or crops:***

Some forms of insurance can protect you from some financial losses caused by pests, diseases, and bad weather.

- **USDA Risk Management Agency (RMA)** can provide information about crop insurance such as AGR and AGR-Lite insurance, as well as provide information about insurers that offer appropriate policies. <http://www.rma.usda.gov/>
- Traditional **crop insurance** covers certain commodities such as apples, sweet and field corn, peaches, cranberries, potatoes, tobacco, winter squash, cultivated clams, and nursery crops.
- The **Adjusted Gross Revenue (AGR)** of USDA Risk Management Agency program insures your overall farm revenue and can be used regardless of the mix of crops on your farm. A similar product, known as AGR-Lite will also cover operations that include some livestock.
- The **Noninsured Crop Disaster Assistance Program (NAP)** provides coverage for crops that are not covered by ordinary crop insurance. NAP is available through the USDA Farm Service Agency. <http://www.fsa.usda.gov/FSA/>
- The **National Agricultural Risk Assessment Library** has many documents on crop insurance options. <http://www.agrisk.umn.edu/>

### ***Design your farm operation to minimize the potential effects of weather, pests, and diseases.***

Management choices such as enterprise selection, diversification, and using good agricultural practices can also minimize the effects of damage.

- **Enterprise selection.** Wherever possible, choose crops and livestock that are suited to your climate and resistant to pests and diseases.
- **Diversification.** Diversifying your farm enterprises can minimize damage; if one crop is destroyed, another may survive.
- Using **good cultural practices** often protects your crops and livestock in spite of potential difficulties. For example, crop rotation can help minimize the effects of many soil-borne diseases.

### ***What if a customer gets hurt while on my farm, or gets sick from eating my farm products?***

This is a legitimate concern on many farms, particularly those that welcome customers onto the farm and those that market directly. There are some very practical and successful ways to minimize these risks.

### ***Acquire the insurance you need to protect yourself.***

Several kinds of insurance may be appropriate, depending on your operation.

- **Farmers Comprehensive Liability Insurance** covers on-farm accidents affecting farmers, employees, guests, and customers. It does not replace Worker's Compensation Insurance and only covers activities considered "farming." This is usually defined to include production and farm stand operations but not other forms of marketing.
- **Commercial Business Insurance** may be necessary if your activities are not considered "agricultural." This insurance is appropriate if you sell at farmers' markets or even farm stands if you sell more than a certain percentage of products that originated off your farm.
- Owners of small operations may be able to expand their **homeowner's policy** to cover farm and marketing activities.

- **Product Liability Insurance.** The policies mentioned above are unlikely to protect you if customers are injured as a result of eating your farm products. You may want a product liability insurance policy that will protect you against this sort of liability.

***Adopt a Food Safety Plan and consider Food Safety Certification for your farm.***

There are growing resources available for food safety plans and most certifiers are growing as demand for food safety certification grows. The certification process involves annual fees that need to be part of the farm budget and cash flow projections. Resources include:

- The On-Farm Food Safety Project <http://onfarmfoodsafety.org/>
- University of California Small Farm Program  
<http://sfp.ucdavis.edu/docs/foodsafety.html>
- Primus Labs  
<http://www.primuslabs.com/>
- NSF Agriculture  
[http://www.nsf.org/business/nsf\\_agriculture/index.asp?program=NSFAgr](http://www.nsf.org/business/nsf_agriculture/index.asp?program=NSFAgr)

## Learning Objectives for the Overall ALBA Business Module

1. Students will understand what they can report on an IRS Schedule F tax form (Profit or Loss from Farming).
2. Students will learn basic human resource regulations and guidelines.
3. Students will understand the basics of record keeping for a small farming business.
4. Students will learn the components of a projected budget: annual profit and loss statement and a monthly cash flow statement.
5. Students will learn how to calculate total costs of production, profit or loss, and how to create a budget and balance sheet on Excel spreadsheets.
6. Students will learn about several ways to finance a farm business.
7. Students will be able to create a business plan for their small farm.

## How to Start a Farming Business?

### Developing a Business Model

#### What to Expect/Overview

#### Business Model

A business model describes how an organization creates, delivers, and captures value — economic, social, or other forms of value. Business model design is the first part of business strategy. The term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, offerings, strategies, infrastructure, organizational structures, and operational processes and policies.

A business model can be effectively expressed as a diagram, conveying how a business will work. Your business model helps you to identify what you need to establish, operate, and make a profit from your business. Most important, your business model highlights the decisions you need to make to have your business succeed.

The best way to begin planning for a new business is to write down your initial thoughts and goals:

#### **My Business Review:**

**The answers to the following questions will help you develop your business model.**

*What is your farming business goal?*

*What does your farming business look like?*

*What is your product(s)? What do you want to grow?*

*What is your farming experience?*

*What is your knowledge of this business?*

*What is your target market?*

*Will you have employees?*

*How much money do you have to start your business?*

*What are the drawbacks and concerns in starting a new business?*

It will be important to refer to your business review while building your business model.

***What does a business model consist of?***

A business model consists of six key components: Value proposition, target market, value chain, competitive advantage, value network, and cost structure and target margins.

1. Value proposition: the value of your business and your product to the customers.  
For example: By selling through “ABC Organics,” I will be providing my customers fresh and delicious organic vegetables and fruits that will increase their health and well being.
2. Target Market: the customers your business will serve. Write a short description of your customer.
3. Value chain: the way your business will be organized to deliver the product or service you provide. Write down the steps or system that needs to be in place for the business to work? How will each part be organized? What part of the business will I manage and which will be done by others?
4. Competitive advantage: the difference your business and/or product have compared to your competitors. Write out why customers will want to buy your product as opposed to other competitors in your area?
5. Value Network: the amount of money you will need to launch the business and how much working capital you need to keep it running — otherwise known as start-up costs. See descriptions of types of costs listed below. Think about your fixed costs, semi-variable costs, variable costs, and non-recurring costs you will expect to pay, as well as cash flow projections in starting up your new business.
  - Working Capital/Start up Costs: Current assets minus current liabilities (note how this relates to your personal financial statement or net worth which compares the liabilities you have personally with the assets you own – this is important if you are looking for financing for a small business). Working capital measures how much in liquid assets a company has available to build its business.
  - Fixed Costs: A cost that does not vary depending on production or sales levels, such as rent, property tax, insurance, or interest expense.
  - Variable Costs: A cost of labor, material or overhead that changes according to the change in the volume of production units
  - Semi-variable Costs: A cost composed of a mixture of fixed and variable components. Costs are fixed for a set level of production or consumption, becoming variable after the level is exceeded. Also known as a “semi-fixed cost.” This type of cost is variable because it fluctuates with farm activity. Labor costs are semi-variable. The fixed portion is the wage paid to workers for their regular hours. The variables are hours and overtime pay.



- Non-recurring Costs: Unusual charge, expense, or loss that is unlikely to occur again in the normal course of a business. Non recurring costs include write-offs such investment costs, fire or theft losses, losses on sale of assets. Also called extraordinary costs.
6. Cost Structure and Target Margins: all the sources of business revenues and the contribution each source makes to the total profit picture. How will my business generate income or revenue? Some sources of farming revenue include:
- Sales revenues: from products you provide customers
  - Subscription fees: weekly or monthly charges for CSA boxes

## **Risk Management for the Small-Scale Farm**

Farming is a risky business. However, just which risks pose the greatest challenge is highly dependent upon what enterprises you engage in and what stage your business is in. For example, during the first few years of an operation production issues may pose the greatest risks as you work out which production methods work best. As your business grows, not having enough skilled labor may be a significant risk. Therefore, you may wish to take this assessment today and then again in a year or two. Your relationship to the farm can also influence how you view risks. Farm managers, as paid employees, may have different concerns than a farm owner. If you are farming in partnership with others, have everyone complete a separate assessment and compare notes.

### ***I. Evaluate Your Attitude Toward Risk***

When weighing the potential risks of farming and deciding how to respond to them, it can be helpful to understand your own attitude toward risk. Consider the following risk attitudes and decide where on the scale you would put yourself. Are you clearly one type or somewhere between two types? If you have farm partners ask them to rate themselves as well. Do you share similar views or are they very different?

- Risk Avoider — You are a very cautious risk taker. You stay prepared for the worst, and you dislike taking any chances. Your operation tends to be stable, but you lose out on opportunities that would involve going out on a limb.
- Risk Calculator — You believe that one must take some chances to get ahead. Before making a decision or taking action, you gather information and analyze the odds. You try to be realistic, to recognize the risks and reduce them to acceptable levels. Sometimes you over analyze.
- Risk Adventurer — You feel that risks are challenging and exciting, and you often look for the chance to take risks. You enjoy the excitement of risk taking, and sometimes you need to be reminded to keep the stakes to a reasonable level.
- Risk Daredevil — You are a risk daredevil if you take unnecessary chances, plunging right in (or staying put) with your eyes closed to risk. Although you might sometimes get lucky, Daredevils commonly fail when they ignore the facts or refuse to take any precautions.

***Place Yourself on this Risk Attitude Scale:***

Risk Avoider — Risk Calculator — Risk Adventurer — Risk Daredevil

## II. Assess Risks for Your Farm

The USDA Risk Management Agency recognized five risk areas for farm businesses. Below are some potential risks in each of those five areas. Look ahead to your next production year. Rate each listed risk as high, moderate, low, or not applicable. Include other potential risks that may not be listed. For those risks to your farm that you rated as high, list possible ways to reduce their impact.

### Assess Production Risks

<i>Description of Risk</i>	<i>High</i>	<i>Mod.</i>	<i>Low</i>	<i>N/A</i>	<i>Strategy to Reduce Risk</i>
Lack of production experience					
Untested production methods					
Yield Variability					
Unpredictable weather					
Lack of equipment or equipment failures					
Other production risk					
Other production risk					

### Assess Marketing Risks

<i>Description of Risk</i>	<i>High</i>	<i>Mod.</i>	<i>Low</i>	<i>N/A</i>	<i>Strategy to Reduce Risk</i>
Lack of Marketing Experience					
Limited marketing channels					
Direct Competition					
Indirect Competition					
Consumer health and safety concerns					
Other marketing risk					
Other marketing risk					

### Assess Financial Risks

<i>Description of Risk</i>	<i>High</i>	<i>Mod.</i>	<i>Low</i>	<i>N/A</i>	<i>Strategy to Reduce Risk</i>
Lack of financial management experience					
Lack of capital to invest in needed equip. or other assets					
High Debt					
High Production to yield costs					
Lack of seasonal operating cash					
Insufficient revenues to cover operating expenses					
Insufficient profit to provide adequate pay to owner(s)					
Other financial risk					
Other financial risk					

### Assess Legal & Environmental Risks

<i>Description of Risk</i>	<i>High</i>	<i>Mod.</i>	<i>Low</i>	<i>N/A</i>	<i>Strategy to Reduce Risk</i>
Lack of knowledge about legal and environmental issues/regs					
New regulations for which farm not grand-fathered					
Unsafe conditions for farm workers or customers					
Pollution to or from neighboring property					
Community not "farm friendly"					
Land development pressures					
Other legal environmental risk					
Other legal environmental risk					

## Assess Human Resource Risks

<i>Description of risk</i>	<i>High</i>	<i>Mod.</i>	<i>Low</i>	<i>N/A</i>	<i>Strategy to Reduce Risk</i>
<b>Lack of farm management experience</b>					
<b>Sick or injured farm labor or managers</b>					
<b>Lack of appropriate labor resources</b>					
<b>Competing goals among farm family members or partners</b>					
<b>Death or divorce of farm principal</b>					
<b>Other human resource risk</b>					
<b>Other human resource risk</b>					

## Business Operations

Everyone who starts an entrepreneurial venture wants to be successful. However, success does not happen overnight, and it is not guaranteed. This guide provides information and many of the tools for you to make the operational decisions — decisions about the daily activities of a business — toward establishing a successful business formula. The focus of this guide will include the following five topics.

- Legal Structure
- Physical Operations
- Regulations and Guidelines
- Financial Operations
- Day-to-Day Operations and Management

### 1. Business Legal Structure

When deciding to establish a business venture, the first decision you need to make relates to the legal structure of the business – in other words, what kind of business are you going to legally establish? The basic legal structures include the following:

- Sole Proprietorship
- Partnership (General or Limited)
- Corporation (C and S)
- Limited Liability Company (LLC)

Each of these business structures has advantages and disadvantages. The right choice for you is the one that will match the purpose of your business and any related tax and liability issues.

**Sole Proprietorship** — This is the simplest form of organization and probably the most common, mostly due to the fact that it is easiest to form and requires the least amount of legal regulation. The term “regulation” is another word for laws, rules, or guidelines. Because the sole proprietorship has unlimited liability, all profits and losses belong to the owner. As long as the profits do not exceed a certain amount, there is a tax advantage because the income is taxed at the personal income level. However, a major challenge might be success itself. With expanded growth and financial success, the process of operating a sole proprietorship can become complex and challenging. Key points – if you have significant personal assets, e.g. house(s), land, you may want to think about a structure such as an LLC that will protect your personal assets if the business gets sued. Especially as your business grows and incurs more risk e.g. more trucks on the road.

When we think of sole proprietorships, we usually think of small businesses, such as small farms, retail food stores, drug stores, restaurants, hair salons; places usually found in our local neighborhoods.

In most cases, in order to establish a sole-proprietorship, you must file for a “Doing Business As” (DBA) certificate also known as a “Fictitious Name”. The DBA was put into place as consumer protection so that people in your community will know who is running a local business; therefore a printed ad is usually run in the local paper when you file your DBA. A DBA certificate is filed in the County Recorder’s office in the county where your business is located.

In a very small number of cases a DBA certificate is not required. A DBA does not apply when your company name is the same as your own name. For example, if you are a sole proprietor named “Joe Farmer” and you own a small farm named “Joe Farmer Organics” or “Joe’s Farm,” you don’t need to file a DBA. If Joe Farmer were doing business as “Earth’s Best Produce,” he would need a DBA.

**Partnership** — A partnership is an arrangement where a small number of individuals own the business. Before starting your business, you must decide whether you prefer to go into business on your own or with one or more partners. There are two types of partnerships; general and limited. In both types of partnerships there is unlimited liability for the debts of the business. In a general partnership, the partners are personally responsible for business debts; if you are liable for a debt caused by the business, your personal assets can be taken as payment. On the other hand, limited liability partners are only responsible for the amount invested in the business.

An advantage of a general partnership is that you do not have to register with your state and pay a fee, as you do to establish a corporation or limited liability company. Also, filing income taxes is easy because the partners, not the partnership, are taxed. Unlike a regular corporation, there is no need to file separate tax returns for the corporate entity and its owners. Because the business decisions of one partner legally bind all others, it is essential that you go into business with a partner or partners you completely trust. It is also essential that you prepare a written partnership agreement establishing, among other things, each partner’s share of profits or losses, day-to-day duties and what happens if one partner dies or retires.

Partnerships are usually formed when a sole proprietor decides to expand and have other partners involved. They also form as a result of two people deciding to combine their skills and financial resources to help ensure their business success.

**Limited Liability Company (LLC)** — Limited liability companies (LLC), allowed by state statute, are becoming more and more popular. They combine the personal liability protection of a corporation with the tax benefits and simplicity of a partnership. The LLC is a separate and distinct business operation allowing it to obtain a tax ID number, open a bank account, and conduct business, all under its own name. The primary advantage is that the owners are not personally liable for the debts and liabilities of the LLC. An LLC with employees requires payroll taxes and unemployment insurance. The requirements for formation of an LLC and annual fees vary from state to state so be sure to learn about your state's current regulations and procedures.

- An LLC is commonly a small business where the owner has decided to structure it as an LLC rather than as a sole proprietorship, in order to benefit from the limited liability condition.
- Some of the disadvantages of an LLC include: State law may limit the life of the LLC; as a partnership, if 50% or more of the capital and profit interests are sold or exchanged within a 12-month period, the Limited Liability Company (LLC) will terminate for federal tax purposes; conversion of an existing business to an LLC status could result in tax recognition on appreciated assets; dissolving an LLC can be a complicated procedure as all partners must agree to dissolve. You will need to first figure out how much each individual person's stake in the LLC is, and also to determine the LLC's debts and assets.

## Taxes

The legal structure of the business, along with the product or service you offer, determines what taxes you must pay and how you pay them. Among these taxes are income tax, self-employment tax, employment tax, sales tax, and excise tax. With each of the following categories, the IRS web site is a central repository for appropriate tax forms. See <http://www.irs.gov/businesses/small/article/0,,id=99194,00.html>.

A farmer must keep financial records to prepare an accurate income tax return.

Recordkeeping will help you:

**Monitor the progress of your business:** Is your business improving? What changes will need to be made? Keeping records increases the likelihood of your business success.

**Prepare your financial statements:** These include your balance sheet and income statement. Keeping these documents will be vital when you apply for loans as you will need to present them as well as your business plan.

**Identify source of receipts:** Since you will be receiving money from different sources, you must keep records that identify the source of your receipts. This helps to distinguish between farm and non-farm receipts and taxable from nontaxable income.

**Keep track of deductible expenses:** Accurately recording your expenses will prevent you from accidentally forgetting to report something on your tax return.

**Prepare your tax returns:** You must have all of your records in order to file taxes. The records that you have need to support the income, expenses, and credits that you report.

**Support items reported on tax returns:** You must keep all of your farm business records available for inspection by the IRS. If the IRS audits your tax return, you will be asked to explain the items reported.

## Schedule F (Profit or Loss from Farming)

As a farmer you must report your farm income using Schedule F (Form 1040). This schedule is used to figure the net profit or loss from farming operations. Income reported on Schedule F includes monies received from cultivating, operating, or managing a farm for profit.

When you visit your tax professional or accountant, you must make sure that they complete a Schedule F to report your Farming Income and not a Schedule C (Profit or Loss from Business). It is very important that you file your Income Taxes using the Schedule F because it lists common income and expense items for farming, whereas the Schedule C does not. Not all tax professionals and accountants are familiar with the Schedule F so you will need to ensure that the person who does your Income Taxes has experience using the form. The financial consequences of filing on the incorrect form are the possibility of reporting less expenses and in turn having to pay more Income Tax. You can also be negatively impacted when applying for a small farm loan because you will need to show two to three years of Schedule F filings.

When filing your Income Taxes you must take into account cash sales (e.g. Farmer's Markets or Farm Stands). Some business owners tend to under-report their sales in order to decrease their taxes. Doing this may make it more difficult for you to get a loan when you are ready to expand your business.

You can download a copy of Schedule F at <http://www.irs.gov/pub/irs-pdf/f1040sf.pdf>.

Below you will find a sample Schedule F form:


<b>SCHEDULE F</b> <b>(Form 5045)</b>		<b>Profit or Loss From Farming</b>		OMB No. 1545-0047 <div style="border: 1px solid black; padding: 2px; display: inline-block; font-weight: bold;">2006</div>
Department of the Treasury Internal Revenue Service		Instructions for Schedule F (Form 5045)		Department of the Treasury Internal Revenue Service
<b>Part I</b> <b>Income</b>		<b>Part II</b> <b>Expenses</b>		<b>Part III</b> <b>Net Income</b>
1. <b>Net income</b>		2. <b>Net loss</b>		3. <b>Net income or net loss</b>
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97. <b>Net income or net loss</b>		98. <b>Net income or net loss</b>		99. <b>Net income or net loss</b>
100. <b>Net income or net loss</b>		101. <b>Net income or net loss</b>		102. <b>Net income or net loss</b>

<b>Part III Farm Income—Accrual Method</b> (see page F-7).		<b>Worksheet</b>	
Do not include sales of livestock held for draft, breeding, sport, or show purposes. Report these sales on Form 4797 and do not include the livestock on line 44 below.			
<b>30</b>	Value of livestock, produce, grains, and other products . . . . .	<b>30</b>	
<b>31a</b>	Cooperative distribution ( Farms 100-247E ) . . . . .	<b>31a</b>	Taxable amount
<b>31b</b>	Agricultural Cooperatives ( Farms 100-247E ) . . . . .	<b>31b</b>	Taxable amount
<b>32</b>	Commonly Owned Corporation (COC) loans:		
a	COC loans reported under election . . . . .	<b>32a</b>	
b	COC loans forgiven . . . . .	<b>32b</b>	Taxable amount
<b>42</b>	Crop insurance proceeds . . . . .	<b>42</b>	
<b>43</b>	Cashless loss (machine sold) income . . . . .	<b>43</b>	
<b>44</b>	Other income, including federal and state gasoline or fuel tax credits or refunds . . . . .	<b>44</b>	
<b>45</b>	Add amounts in the right column for lines 30 through 44. . . . .	<b>45</b>	
<b>46</b>	Inventory of livestock, produce, grains, and other products at beginning of the year . . . . .	<b>46</b>	
<b>47</b>	Cost of livestock, produce, grains, and other products purchased during the year . . . . .	<b>47</b>	
<b>48</b>	Add lines 46 and 47. . . . .	<b>48</b>	
<b>49</b>	Inventory of livestock, produce, grains, and other products at end of year . . . . .	<b>49</b>	
<b>50</b>	Cost of livestock, produce, grains, and other products sold. Subtract line 48 from line 49. . . . .	<b>50</b>	
<b>51</b>	Gross income. Subtract line 50 from line 45. Enter the result here and on Part I, line 11. . . . .	<b>51</b>	

If you use the accelerated-cost method or the simplified method of valuing inventory and the amount on line 48 is larger than the amount on line 49, subtract line 49 from line 45. Enter the result on line 50. Add line 48 and 50. Enter the total on line 51 and on Part I, line 11.

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### Part IV Principal Agricultural Activity Codes

	File Schedule C (Form 1040) or Schedule C-EZ (Form 1040-EZ) instead of Schedule F if your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, or if you are engaged in the business of breeding, raising, and caring for dogs, cats, or other pet animals.	111300 Fruit and tree nut farming
		111400 Greenhouses, nursery, and floriculture production
		111900 Other crop farming
	<b>Animal Production</b>	
	121110 Beef cattle ranching and farming	
	121120 Cattle feedlots	
	121210 Dairy cattle and milk production	
	122110 Hog and pig farming	
	122200 Poultry and egg production	
	122300 Sheep and goat farming	
	122510 Animal architecture	
	122900 Other animal production	
	<b>Fishing and Logging</b>	
	130000 Forestry and logging (including forest nurseries and timber tracts)	

**Crop Production:**

- 111100 Oiled and grain farming
- 112100 Vegetable and melon farming

**These codes for the Principal Agricultural Activity classify farmers by their primary activity to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS). Select the code that best identifies your primary farming activity, and enter the six digit number on page 1, line 8.**



## Schedule C: Profit or Loss From Business

Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity.

Below you will find a sample Schedule C form. Please take a moment to note the differences between the Schedule F and the Schedule C.

**SCHEDULE C**  
(Form 1040)  
Profit or Loss From Business  
(Sole Proprietorship)

2006  
06  
06

Part I Income

1 Gross receipts or sales: **Cash** ☐ **Account** ☐ **Other** ☐ **1**

2 Returns and allowances: **2**

3 Subtotal line 1 from the 1: **3**

4 Cost of goods sold from line 11 on page 11: **4**

5 Gross profit. Subtract line 4 from line 3: **5**

6 Other income, including federal and state payments of fuel tax credit or refund (see page C-5): **6**

7 Gross income. Add lines 5 and 6: **7**

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising: **8**

9 Car and truck expenses (see page C-4): **9**

10 Commissions and fees: **10**

11 Contract labor (see page C-4): **11**

12 Depreciation: **12**

13 Depreciation and section 179 expense deduction (see page C-4): **13**

14 Employee benefit programs (other than on line 14): **14**

15 Insurance (other than health): **15**

16 Interest: **16**

17 Mortgage (paid to banks, etc.): **17**

18 Other: **18**

19 Legal and professional services: **19**

20 Total expenses before expenses for business use of home. Add lines 8 through 19 in column: **20**

21 Tentative profit (loss). Subtract line 20 from line 7: **21**

22 Expenses for business use of your home. Attach Form 8829: **22**

23 Net profit or (loss). Subtract line 22 from line 21: **23**

24 If a profit, enter on both Forms 1040, line 12, and Schedule SE, line 2, or on Form 1040EZ, line 13 (including employees, see page C-4). Enter and trade, enter on Form 1041, line 5.

25 If a loss, you must go to line 30.

26 If you have a loss, check the box that describes your investment in the activity (see page C-5): **26**

27 If you checked 25a, enter the loss on both Forms 1040, line 12, and Schedule SE, line 2, or on Form 1040EZ, line 13 (including employees, see page C-4). Enter and trade, enter on Form 1041, line 5.

28 If you checked 25b, you must attach Form 8880. Use line 28 only the full.

29a ☐ All investment is at risk.

29b ☐ Some investment is at risk.

30 Paperwork Reduction Act Notice. See page C-8 of the instructions. **30**

**Part III Cost of Goods Sold** (see page C-7)

31 Method used to value closing inventory: ☐ Cost ☐ Lower of cost or market ☐ Other (attach explanation)

32 Was there any change in determining quantities, units, or valuations between opening and closing inventory? ☐ Yes ☐ No

33 Inventory at beginning of year. If different from last year's closing inventory, attach explanation: **33**

34 Purchases less cost of items withdrawn for personal use: **34**

35 Cost of labor. Do not include any amounts paid to yourself: **35**

36 Materials and supplies: **36**

37 Other costs: **37**

38 Add lines 33 through 37: **38**

39 Inventory at end of year: **39**

40 Cost of goods sold. Subtract line 39 from line 38. Enter the result here and on page 1, line 4: **40**

**Part IV Information on Your Vehicle.** Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 for first use if you must file Form 4562.

41 When did you place your vehicle in service for business purposes? (month, day, year) **41**

42 Enter the total number of miles you drove your vehicle during 2006. Enter the number of miles you used your vehicle for:

a Business **42a** b Commuting (see instructions) **42b** c Other **42c**

43 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

44 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

45 Do you have evidence to support your deduction? ☐ Yes ☐ No

46 Is a "trip" in the vehicle written? ☐ Yes ☐ No

**Part V Other Expenses.** List below business expenses not included on lines 8-26 or line 30.

47 **47**

48 **48**

49 **49**

50 **50**

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96 **96**

97 **97**

98 **98**

99 **99**

100 **100**

## 2. Business Physical Operations

Once you have established the legal structure for your business, you need to think about the physical operations of the business. Business operations include the location of your business and the processes, resources, and other tools you will need to transform inputs (raw materials, labor, and capital) into outputs (goods or services). To maximize your outputs for profitability, you must organize your inputs.

While some businesses have unique physical operational needs, there are basic areas for all business owners to consider. The operational decisions you make can improve the efficiency (and profit line) of your end product. There is no one right design for a business's physical operations; it depends on the product (good or service) and the production process. As a business owner, it is essential to make certain that all operations function well and integrate with one another effectively. For example, as a small organic farmer you will need to consider such things as soil type, weather, existing organic certification, and existing irrigation systems available on land that you plan to lease or purchase.



### 3. Business Regulations and Guidelines

There are laws and regulatory requirements that affect every aspect of your business venture. While it might be frustrating to deal with the many regulations, most exist for the protection of your business venture. Many of the regulatory requirements exist at multiple levels -- local, state, and federal. Don't hesitate to consult with appropriate professionals who will listen to your business plan and provide you with the expertise and guidance you need. *Remember: It is your legal responsibility to be aware of the guidelines and any changes in regulations.*

ALBA has created a Regulatory Risk Decision Tree document for farmers in Monterey County and the region. It is available at [www.albafarmers.org/publications](http://www.albafarmers.org/publications)

### Human Resources

When looking to add employees to your business the first thing you must decide is what type of employees you want to hire. There are five different types of employees: full-time employees who maintain a regular schedule to handle the responsibilities for certain aspects of the business; part-time employees to address seasonal demands; temporary employees; contractors who provide their services for certain day-to-day oversight areas; or you can outsource specific services or consulting expertise, such as accounting.

The following charts will help you answer the questions that arise when you are thinking about hiring employees:

<i>Additional employees will be a positive asset for my business because:</i>	<i>Additional employees will be a negative asset for my business because:</i>
-	-
-	-
-	-
-	-
-	-
-	-

<i>Job Title</i>	<i>Skills &amp; Qualifications</i>	<i>Work Responsibilities</i>	<i>F/T; P/T; Temporary, Contractor; Outsource</i>

**Employee Benefits** — By law, you must provide certain, mandated benefits, but you have many options when providing optional benefits for your employees. Benefits can be costly – what is the advantage of offering them? The main reasons are to not only attract but also to retain valuable employees and foster good morale. What is your competition doing in terms of the benefits they provide for their employees? Be sure to clearly communicate the benefits plan to all employees.

**Employment Laws** — As a small business owner, you are responsible for knowing the laws that apply to your business. It is your responsibility to be aware of these laws and their meaning and to be cautious when you interview potential employees. Some of the major employee-related legal requirements that you need to be aware of in your business include the following:

Key Employment Laws	
• <b>Equal Employment Opportunity Act</b>	Prohibits discrimination in employment practices because of race, religion, sex, or national origin.
• <b>Age Discrimination in Employment Act</b>	Prohibits unfair hiring and treatment of employees based on age.
• <b>Fair Credit Reporting Act</b>	Assures a consumer's right to access his or her credit file and dispute incorrect information.
• <b>Americans with Disabilities Act (ADA)</b>	Prohibits discrimination against individuals with physical handicaps. This includes not only the hiring practices but also the design of the facility.

The United States Department of Agriculture (USDA) provides a full list of agricultural labor laws. Some of these laws include Minimum Wage and Overtime Pay, Migrant and Seasonal Agriculture Workers Act, H-2A Program. For more information regarding agricultural labor laws visit: <http://www.usda.gov/oce/labor/laws.htm>

**Employee Retention** — You can keep employees happy and content in their jobs in many ways; many of which do not cost a lot of money. Recognition can range from expressing your appreciation regularly to an Employee of the Month recognition program, special parking spots, etc. Establish an open workplace environment where employees feel welcome to provide feedback on the employment process, the workplace environment, and the production process. Some questions for you to consider in your farming business include:

*Am I treating my workers with respect?*

*Do my workers feel that they can come to me with work related problems or issues?*

*Am I giving my employees enough time to take a break?*

*Do my workers have easy access to a bathroom and hand washing station?*

*Am I creating a safe work environment for my employees?*

Please see *Positive Practices for Farm Labor Management*, an ATTRA publication, at <http://foodalliance.org/resources/positive-practices-in-farm-labor-management.pdf>.

## Insurance

Insurance is defined as protection against risks. There are many risks associated with starting a business. To protect your business and yourself, consider the following insurance options.

**Business Property Insurance** — To decrease the risks involved with owning property, research available insurance policies covering losses due to theft, fire, weather conditions, and other losses.

**Business Liability Insurance** — Business liability insurance protects both your business and personal life from potential financial ruin. Business liability insurance protects your business in the event of a lawsuit for personal injury or property damage by not only covering the damages from the lawsuit but also the legal costs. It can be purchased in the form of general liability, professional liability, and product liability. Most farmers markets require farmers to have liability insurance. Insurance can sometimes be added to individual farmers' policy for liability at the market or the market organization can purchase it as a group.

**Workers Compensation Insurance** — Under laws in most states, employers with more than a certain number of employees are liable for most job-related accidents. This type of insurance allows employers to contribute to a state insurance fund, from which benefits are paid to workers who are injured while on the job.

**Employment Practices Liability Insurance** — This is a relatively new form of liability insurance covering the business as well as management. It provides protection for an employer against claims made by employees, former employees, or potential employees by covering discrimination (age, sex, race, disability, etc.), wrongful employment termination, sexual harassment, as well as other employment-related allegations.

Watsonville Law Center helped ALBA create the following brief overview of the legal requirements for all employers in California.

There are many benefits to treating workers well, including increased retention of skilled workers and higher quality of work. Beyond compromising the work environment, health, safety, and productivity of a business, mistreating workers can subject employers to sanctions, fines and even jail. Employers are obligated to provide their employees with *Workers' Compensation Insurance, safety training and safe and healthy working conditions, equal treatment, fair pay according to position, on-time, and in money.*

## Workers Compensation

Employers must provide employees with Workers' Compensation Insurance—regardless of their immigration status. Employers must comply with the law by purchasing and paying an insurance policy, enrolling all workers, informing the workers how to obtain the insurance, and processing accident reports appropriately and in a timely manner. Employers must also put up announcements in a visible place where all employees have access informing them of their rights to Workers' Compensation insurance. Not informing workers about their rights to Workers' Compensation insurance is a misdemeanor and the employer can be fined up to \$7,000. These forms are available at <http://www.dir.ca.gov/dwc/forms.html>

If employees are injured or get sick on the job, they are entitled payment of medical bills, rehabilitation therapy, earnings lost as a result of injury or illness, job training to enter a new career. Workers' Compensation will cover these entitlements. In the case of death on the job, Workers' Compensation insurance will also cover funeral expenses and provide economic support to dependents.

***Where can I buy an insurance policy?***

- Office of Self Insurance Plans (SIP)  
<http://www.dir.ca.gov/SIP/generalinfo.htm>
- California Department of Insurance  
Web site. <http://www.insurance.ca.gov/> o hable a 1-800-927-HELP (4357)
- State Compensation Insurance Fund (State Fund) <http://www.scif.com/> o hable a (877) 405-4545

***Employers cannot ask their employees to pay the costs of the insurance.***

When an accident occurs, the employer must ensure that the worker receives medical attention as soon as the injury is reported. Within 24 hours of receiving report of the accident or injury, the employer must give the worker the California Workers Compensation Claim Form (DWC-1) and inform the worker in writing how to request Workers' Compensation for the accident. If a worker is hurt and the employer does not have insurance, they have committed a misdemeanor and the employer can be fined up to \$10,000 or go to jail for up to a year. In addition, the employer is responsible for paying the medical expenses. It does not matter if the injured worker or a co-worker was responsible for the accident; if the accident occurs during work hours, the worker has a right to receive Workers' Compensation.

An independent contractor is somebody who is contracted to provide goods and services. Independent contractors are not considered employees and are therefore not entitled to Workers' Compensation insurance. The main criteria to determine if someone is an employee or an independent contractor, is the level of supervision that the employer would apply over the details of the work.

Not having a Workers' Compensation policy is a violation of the law and the state labor authorities can close one's business until one purchases an insurance policy. If you continue operating the business in violation of the closing order, you can be fined and can go to jail for up to 60 days. (Labor Code section 3722 (a))

***Of these workers, who would be considered an independent contractor and who has a right to Workers' Compensation?***

***Suppose Pedro is the owner of a small farm. Which of his "workers" are entitled to Workers' Compensation Insurance?***

1. Jorge has a greenhouse construction business and he built a greenhouse for Pedro's farm. Jorge might be considered an independent contractor if his employer is not exercising much control over the details of the work, but rather the final product. Since Jorge is an independent contractor, Pedro is not legally required to provide him with Workers' Compensation Insurance.
2. Salvador is an undocumented immigrant and is working for 2 weeks on Pedro's farm picking raspberries. Salvador is performing an ongoing task that Pedro is directing. He is considered a worker, even though the job is temporary, and is entitled to Workers' Comp. An individual's immigration status does not affect his or her eligibility for Workers' Comp insurance.
3. Pedro's friend Guadalupe comes every once in a while and helps with weeding. If Guadalupe is doing the work as a favor to her friend and does not expect payment, she would not be considered an employee nor entitled to Workers' Comp.

## **Safe and Healthy Work Conditions**

Safe and healthy work conditions will lead to reduced injury and illness in the work place. Besides protecting employee health and safety, programs to prevent accidents and promote health can also lower rates for Workers' Compensation policies. To ensure safety and hygiene in the workplace, employers must ensure that workers utilize safe and adequate equipment in good condition and receive instruction in the safe operation of all equipment that they operate. The Occupational Health and Safety Administration (OSHA) approves programs in each state that ensure compliance with health and safety laws. In California, the regulatory agency is called Cal OSHA. Cal OSHA monitors and maintains records of injuries and illnesses related to each job-type. It uses this information to determine what practices will help to avoid accidents in the work place and offers assistance, training and other support programs to help employers and workers reduce risks.

Employers comply with health and safety regulations by informing and warning workers about dangerous work areas and materials, responding to employees' complaints about unsafe working conditions, and cooperating with OSHA officials during an inspection by responding to their questions about safety conditions in the workplace. In the case of infractions, Cal OSHA may inspect the workplace and issue sanctions if infractions are found. The worker also has the right to report to OSHA any conditions that threaten his or her health or personal safety. The employer may not retaliate against a worker for making a complaint by firing, demoting or reducing the worker's hours, salary, or benefits. If the OSHA inspector finds dangerous conditions, the employer is given the opportunity to correct these conditions, but if the employer doesn't take action he or she can be sanctioned between \$7,000 and \$70,000 and can go to prison for up to six months.

State regulations also require that workers have access to clean and hygienic bathrooms and clean drinking water with individual glasses.

### **Joaquin's story**

- *Joaquín has been weeding with the "Weed Whacker" all day, every day of the week*
- *His hands, shoulders and knees hurt due to the machinery's vibrations.*
- *What is the employer's responsibility in this situation to protect the employee's safety?*
- *Joaquin complains to the owner of the company that the prolonged use of the machinery has hurt his arms*
- *The owner tells him not to use the Weed Whacker anymore, but the next day his supervisor asks him to use the tool*
- *The supervisor says that if he refuses to use the tool, they will fire him. Has the company broken the law?*
- *To threaten the worker that he or she will be fired is discrimination, and is not in compliance with OSHA regulations*

### **Non-discrimination and equal treatment**

An employer cannot treat employees different due to race, color, nationality, sex, religion, age, disability or pregnancy. The law prohibits discrimination at any stage in the job including: job announcements, interviews, working conditions, and firing. These laws protect all workers, regardless of their immigration status. Workers can file a discrimination complaint with their supervisor and can complain to the Equal Employment Opportunities Commission (EEOC) and the Fair Employment Practices Agency (FEPA).

### **Wage Obligations of Employers**

Employers must pay a salary to a worker that is fair according to the position; in money; on time. In California the minimum wage is \$8.00 per hour. (as of January 2012)

### **Who has a right to the minimum wage?**

In California **all workers** have a right to the minimum wage, with the exception of outside vendors, parent, husband, wife or child of employer.

### **What if the worker is under-age?**

In California, the minimum wage is the same for minors and adults.

### **Are undocumented workers eligible?**

Yes. It doesn't matter if the worker is a foreigner or without a work permit.

### **What if the job pays by commission, by box, or piece, or any other way than per hour?**

The employer must pay the minimum wage applied for all hours worked during the period of payroll.

### **What if the worker accepts less than the minimum wage?**

The obligation of paying the minimum wage is NOT negotiable.

### **Can the employer use tips to pay the minimum wage?**

No, tips are not part of the minimum wage.

### **Rest Periods**

The workers should have a period of 10 minutes to rest for every 4 hours worked. For every 5 hours worked, the worker should have a period of 30 minutes to eat and/or rest

### ***When do I have to pay my workers?***

The general rule in California is that salaries should be paid at least twice a month on *pre-established days*. The law allows the following exceptions: once a week, to employees of farm labor contractors; once a month, to employees in the agriculture, wine, poultry, or livestock sectors **that receive food and shelter**.

It is your obligation to maintain records with the following information on your employees:

- Their name, birth date, address, occupation and social security number;
- Start and end shift of each worker;
- Hours worked per payroll;
- Total salaries paid per payroll;
- Meal periods;
- Rest periods

## **4. Business Financial Operations**

**Accounting System** — Your accounting system is a business mirror; it serves as a source of checks and balances for your business. You need to know basic accounting principles and bookkeeping procedures so you can talk intelligently about your accounting needs with employees, bankers, accountants, etc.

Financial data that must be recorded:

The three major financial forms that you should maintain are the following:

- Income Statement (Profit & Loss Statement)
- Cash Flow Projection
- Balance Sheet

**1. Income Statement** — The income statement tracks your income over time and calculates your net income; it tells you if the business is profitable or not. To determine your net income, add all business revenue and then subtract all costs and expenses of operating the business. Income statements are usually prepared monthly, quarterly, or annually and are most effective when they include a comparison to financial activity for the same period of time in a previous year (i.e., the first business quarter of 2005 compared to the first business quarter of 2004). Income statements are valuable for business projections, calculating taxes, evaluating the business's progress, and attracting potential investors. Add categories and customize this worksheet as needed, based on the needs of your business.

Below you will find a sample income statement used specifically for farm operations.

<b>Rich Fields Organic Farms</b> <b>Income Statement</b> <b>For the Month Ended 31 May 200X</b>		
	<b>Detail</b>	<b>Summary Totals</b>
<b>Revenue:</b>		
Gross Sales		21,500.00
Sales Returns and		
Less: Allowances		0.00
<b>Net Sales</b>		<b>21,500.00</b>
<b>Cost of Goods Sold:</b>		
Beginning Inventory	29,000.00	
Add: Purchases	1,500.00	
Freight-in	275.00	
Direct Labor	3,000.00	
Indirect Expenses	0.00	
	33,775.00	
Less: Ending Inventory	15,000.00	
<b>Cost of Goods Sold</b>		<b>18,775.00</b>
<b>Gross Profit (Loss)</b>		<b>2,725.00</b>
<b>Expenses:</b>		
Advertising	250.00	
Bad Debts	0.00	
Bank Charges	0.00	
Charitable Contributions	0.00	
Delivery Expenses	0.00	
Depreciation	0.00	
Insurance	125.00	
Interest	0.00	
Maintenance	0.00	
Office Expenses	150.00	
Operating Supplies	1,250.00	
Payroll Taxes	480.00	
Permits and Licenses	0.00	
Professional Fees	0.00	
Property Taxes	0.00	
Rent	1,400.00	
Repairs	750.00	
Telephone	100.00	
Utilities	0.00	
Vehicle Expenses	300.00	
Wages	1,000.00	
<b>Total Expenses</b>		<b>5,805.00</b>
<b>Net Operating Income</b>		<b>-3,080.00</b>
<b>Other Income:</b>		
Gain (Loss) on Sale of Assets	0.00	
Interest Income	0.00	
<b>Total Other Income</b>		<b>0.00</b>
<b>Net Income (Loss)</b>		<b>-3,080.00</b>



**2. Cash Flow Statement** — Most beginning businesses have a crucial need to know, on a daily basis, how much cash they have now and will need in the immediate future. The cash flow statement found below tracks the cash on hand. Your business may bring in income or revenue, but if you don't have enough cash to pay your bills, you need to pay more attention to the cash flow statement to ensure you are progressing to where your income is greater than your expenses. A cash flow projection is an important tool for budgeting, determining appropriate capital investments, and understanding your costs of production. Two or three years of monthly cash flow projections are usually required to obtain a farm business loan.

<b>Cash Flow Worksheet "Rich Fields" Organic Farms</b> <b>(6-Month Excerpt of a One-year business cash flow)</b>							
	<b>Jan</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>6-mo Total</b>
<b>Beginning Cash Balance</b>	12,319	8,224	529	864	(1,621)	7,024	
<b>Cash Inflows (Income)</b>							
Loan Proceeds		2,000	3,000				5,000
Sales (Strawberries)					5,500	9,000	14,500
Sales (Blueberries)					6,500	7,800	14,300
Sales (Tomatoes)			5,200	6,500	9,500	13,000	34,200
<b>Total Cash Inflows</b>	0	2,000	8,200	6,500	21,500	29,800	68,000
<b>Available Cash Balance</b>	12,319	10,224	8,729	7,364	19,879	36,824	
<b>Cash Outflows (Expenses)</b>							
Advertising	250	250	250	250	250	250	1,500
Insurance	125	125	125	125	125	125	750
Inventory Purchases		2,000	1,500	1,500	1,500	900	7,400
Miscellaneous: Tool Repair			350		750		1,100
Payroll	1,000	1,000	2,000	3,000	4,000	4,000	15,000
Payroll Taxes	120	120	240	360	480	480	1,800
Professional Fees	100	100	100	100	100	100	600
Rent or Lease	1,400	1,400	1,400	1,400	1,400	1,400	8,400
Supplies	300	700	1,250	1,250	1,250	1,250	6,000
Taxes & Licenses	300						300
Utilities & Telephone	100	100	100	100	100	100	600
Other: Auto Expenses	100	100	250	300	300	300	1,350
<b>Subtotal</b>	3,795	5,895	7,565	8,385	10,255	8,905	44,800
<b>Other Cash Out Flows:</b>							
Capital Purchases		3,500					3,500
Loan Principal					2,000	3,000	5,000
Owner's Draw	300	300	300	600	600	600	2,700
<b>Subtotal</b>	300	3,800	300	600	2,600	3,600	11,200
<b>Total Cash Outflows</b>	4,095	9,695	7,865	8,985	12,855	12,505	56,000
<b>Ending Cash Balance</b>	8,224	529	864	(1,621)	7,024	24,319	

You can also create a monthly cash flow for specific crops in order to determine whether that crop is profitable. The following is an example of a monthly cash flow from the UC Davis Department of Agricultural and Resource Economics. See all of the cost studies at <http://coststudies.ucdavis.edu/>

### *Monthly Cash Costs to Produce Organic Romaine Lettuce*

	JAN 09	FEB 09	MAR 09	APR 09	MAY 09	DEC 09	TOTAL
<b>Cultural:</b>							
Disc 4X	17.08						17.08
Chisel 2X	15.89						15.89
Compost Application	236.40						236.40
List Beds	11.05						11.05
Pre-irrigate	27.64						27.64
Preplant Cultivation		3.26					3.26
Shape Beds		3.98					3.98
Plant Lettuce		118.19					118.19
Irrigate		27.64	55.27	27.64			110.54
Cultivate 2X		7.76	7.76				15.52
Hand Thin & Weed		150.79					150.79
Foliar Feed			19.23				19.23
Pest Management			35.18				35.18
Rodent Control (Trap)				16.48			16.48
Pickup Use				27.23			27.23
TOTAL CULTURAL COSTS	308.06	311.62	117.45	71.35			808.47
<b>Harvest:</b>							
Hand Cut & Pack				1,482.25			1,482.25
Equipment Use				3.21			3.21
Transport to Broker				76.75			76.75
TOTAL HARVEST COSTS				1,562.21			1,562.21
<b>Assessments:</b>							
CA State Organic Reg. Fees				6.25			6.25
CCOF Inspection Fees				0.78			0.78
CCOF Membership Fees				0.78			0.78
CCOF .5% of Gross Sales				18.38			18.38
TOTAL ASSESSMENT COSTS				26.19			26.19
Interest on operating capital	2.31	4.65	5.53	17.98			30.46
TOTAL OPERATING COSTS/ACRE	310.37	316.27	122.98	1,677.73			2,427.34
TOTAL OPERATING COSTS/BOX	0.59	0.60	0.23	3.20			4.62
<b>Cash Overhead:</b>							
Land Rent				359.38			359.38
Office Expense	15.27	15.27	15.27	15.27			61.09
Liability Insurance				1.88			1.88
Sanitation Services				6.19			6.19
Property Taxes						9.62	9.62
Property Insurance						4.81	4.81
Investment Repairs	1.56	1.56	1.56	1.56			6.25
TOTAL CASH OVERHEAD COSTS	16.84	16.84	16.84	384.27		14.43	449.21
TOTAL CASH COSTS/ ACRE	327.21	333.10	139.81	2,062.00		14.43	2,876.56
TOTAL CASH COSTS/BOX	0.62	0.63	0.27	3.93		0.03	5.48

Monthly cash costs for produce are divided into five different cost categories: cultural, harvest, assessments, total operating costs, and cash overhead.

**Cultural costs** — Cultural practices and various techniques used by organic vegetable growers (e.g. cultivation, flaming, solarization, mulches, use of transplants and pre-germination of weed seeds) to produce vegetables often provide an opportunity for the crop to gain an advantage over weeds and out-compete them for nutrients, light and water. All of these techniques help reduce hand-weeding costs and make crop production more efficient. In spite of these efforts, organic growers frequently, but not always, have higher weeding costs than conventional producers.

**Harvest Costs** — Harvest and packing methods may vary depending on a grower's labor and equipment. Harvest costs include hand harvest and field or shed packing. Labor hours for harvest, sorting, grading, and packing will vary on a year to year basis depending on crop and field conditions. Harvest costs also include the use of equipment.

**Assessment Costs** — Assessment fees include the fees associated with planting on Certified Organic land. In this example, the assessment fees included were CA state organic registration fees, organic inspection and membership fees, and possibly fees related to regulation of water quality.

As an example, a stepped scale organic grower's registration fee of \$1,000 is assessed by the State of California on the gross sales amount of \$1,086,944. The gross sales amount is calculated by multiplying the yield of each crop by the price received for each crop and the number of planted acres for each crop. This is only an estimate of potential fees and will vary depending on yields and returns. Contact the County Agricultural Commissioner in your area for further details.

The grower in the previous example is assumed to be certified by California Certified Organic Farmers (CCOF). Annual membership and inspection fees are approximately \$125 each. Assessment fees are .5% of a grower's gross sales and are included as a cost of production. Total CCOF assessments for the farm are \$5,434. Fees are based on the production amount; the number of acres and parcels contained in an operation as well as whether or not the farm is totally organic. Therefore, individual situations may vary.

**Total Operating Costs** — Your Total Operating Costs are calculated by adding your Total Cultural Costs and your Total Assessment Cost.

**Cash overhead Costs** — Cash Overhead costs include land rental expense, office expense, liability insurance, sanitation services, property taxes, property insurance, and investment repairs. Your Total Cash Overhead Costs per acre are calculated by adding your Total Operating Costs/acre and your Total Cash Overhead Costs.

**Cost of Production** — All the resources that go into producing agricultural crops. In general, costs are based on common practices and management techniques used by growers.

### **Common Costs of Production:**

**Land** — Land costs (buying, renting, leasing) based on the total number of acres used for production, location, quality of soil, proximity of water and other factors.

**Production Practices**—Input costs (land preparation, fertilization, transplanting, harvesting, post-harvest costs) usually in the order operations are performed. Labor, materials, fuel and repairs are also included in these tables. This section is also known as Operational or Cultural Costs in Cash Flow projections.

An excellent resource on farm financial management is the book, *The Organic Farmer's Business Handbook: A Complete Guide to Managing Finances, Crops, and Staff — and Making a Profit*, by Richard Wiswall, published by Chelsea Green Publishing in 2009

**Seed & Transplants** — Costs include buying seeds and transplants (including cover crops), preparing land and the labor in cultivating each crop. Timing of these operations are dependent on planting schedules for each crop.

**Crop Irrigation** — Costs include buying and installing the irrigation system (drip tape or sprinklers etc.), maintenance, repairs and water costs.

**Pest Disease & Weed Management** — Cost of various pest, disease and weed management controls such as pesticides, herbicides, mulch, biofertilizers, cover crops, plastics, fumigants, biological controls etc..

**Harvest** — Costs include labor or contracted labor costs, field or shed packing, sorting, grading, custom and commission costs during harvest.

**Yield & Return** — Yields & Return vary on a season-to-season basis due to such factors as pest damage, climate, and market competitiveness. The Return reflects the amount received by growers after sales to market.

**Marketing** — Depending on farm size, amount of produce and marketing plan, growers may choose to sell their products through wholesalers, produce brokers or direct markets. The costs associated with handling, marketing and sales, labeling, cooling, transport, and distribution for a fee or commission may vary.

**Labor** — Calculate hourly wages for workers, machine operators and field workers. Include SDI, FICA insurance, and other benefits, labor cost for equipment set-up etc..

**Investments** — Depreciation and Opportunity costs on an annual price per acre basis.

**Business Overhead** — This will include taxes, investment insurance, liability insurance, sanitation/municipal services, and office and administration costs.

**Assessments** — Organic registration fee with the state, organic inspection fees, organic certification fee, membership, and assessment.

**Interest** — Interest on operating capital is based on cash costs and is calculated monthly until harvest at a nominal interest rate per year or in other words, interest on loans you have taken out for operating, infrastructure or land purchase.

**Equipment costs on a per acre basis include:**

- Original cost of equipment plus sales tax
- Depreciation using straight line method
- Interest on investment at real interest rate
- Total investment costs to reflect a mix of new and used equipment

**Fuel & Repair** — Fuel and repair costs per acre for each operation. Prices of on-farm delivery of gasoline and diesel per gallon respectively.

**3. Balance Sheet** — The balance sheet tells you how much the business is worth. It is prepared at least annually and contains two parts — Net Worth and Liabilities. Very simply stated, the balance sheet shows what the business owns (assets), what the business owes (liabilities), and the difference between the two (net worth). If possible, it is good to include comparative figures from a benchmark time period. Within the balance sheet are two very important categories — Accounts Receivable and Accounts Payable. Accounts Receivable represents money due from customers. Accounts Payable represents money the business owes for various goods and services. Monitoring accounts payable insures a sound credit record.

Mid-County Farms Balance Sheet February, Ending: 02/28/1999, FY: 1999	
ASSETS:	Cash
SHORT TERM ASSETS:	
Checking/Farm Account	7,154.29
Checking/Personal	400.00
Savings Account	600.00
TOTAL SHORT TERM ASSETS	8,154.29
INTERMEDIATE ASSETS:	
Inventory/Cattle	32,810.52
Inventory/Corn	105,641.49
Inventory/Hog	6,700.00
Farm Equipment/Acc Dep	(58,000.00)
Farm Equipment/Combine	80,000.00
Farm Equipment/Crop Equipment	150,000.00
Farm Equipment/Livestock Equip	30,000.00
TOTAL INTERMEDIATE ASSETS	346,952.01
LONG TERM ASSETS:	
Owned Land/Farm Two	50,000.00
Owned Land/Home Place	120,000.00
TOTAL LONG TERM ASSETS	170,000.00
TOTAL ASSETS	525,106.30
LIABILITIES:	
SHORT TERM LIABILITIES:	
Operating Loan	25,000.00
Fica Tax Pay./Employees	161.42
TOTAL SHORT TERM LIABILITIES	25,161.42
LONG TERM LIABILITIES:	
Land Loan	75,000.00
TOTAL LONG TERM LIABILITIES	75,000.00
TOTAL LIABILITIES	100,161.42
CAPITAL:	
Capital/Net Worth	424,944.88
TOTAL CAPITAL	424,944.88
TOTAL LIABILITIES & CAPITAL	525,106.30

## Bookkeeping and Bookkeeping Records

**Bookkeeping** — The practice or profession of recording the accounts and transactions of a business. To produce the necessary financial statements, you need data that is correct, current, reliable, and documented. Maintaining journals and ledgers will ensure that you have the necessary and correct data. A journal is a documented reference of each business transaction supported by receipts, etc. You may have separate journals for specific categories. A ledger is documentation of your totals from the various journals. Journals and ledgers can be maintained in hard copy or electronic format. Whichever record-keeping system you adopt, it must clearly show your income for the tax year. Purchases, sales, payroll, and other business transactions will generate documents such as invoices, receipts, deposit slips, cancelled checks, etc. The information in these documents reflects the financial activity of your business and should be organized according to the type of income or expense.

**Gross Receipts** — These receipts document the income that your business receives, including the source and amount. Receipts may include invoices, bank deposit slips, receipt books, etc.

**Purchase Receipts** — These receipts document items that you purchase to use in the production process or for resale to customers. This category can include cancelled checks, cash register receipts, credit card sales slips, invoices, etc.

**Expense Receipts** — These receipts document the costs that you incur to operate your business. This category can include credit card sales slips, cancelled checks, invoices, and even the petty cash slips for small purchases, etc.

**Special Expense Receipts (for travel, transportation, entertainment etc)** — These guidelines change on a regular basis, always check with the IRS at <http://www.irs.gov> for current guidelines that govern business expenses.

**Tax Receipts** — Copies of employments records, tax payment receipts, sales receipts etc., must be kept for documentation purposes.

**Asset information** — You should document your business assets — the property you own and use in your farming operation. Your records should include the purchase and sales invoices and important information such as: purchase date, purchase price, how asset is used, improvement costs, losses, depreciation deductions, and selling price.

## Access to Credit

**Credit Report** — A credit report is used as an indicator of your credit worthiness. It reveals information about your past and present payment patterns. A credit report shows whether you pay your bills on time and what existing loans you currently have. If you have paid your bills on time in the past, this is a good indication to all that you will do the same in the future. If you have problems paying bills on time (you forget to write a check for the monthly electric bill, phone bill, and credit card bill), it indicates that you will most likely have a problem making future payments.

Your credit report is essentially your credit history. The credit report details what credit cards you have open, what type of loans you have (school loans, mortgages, car loans), how long you have had the loans, and the amount of the outstanding balances (i.e. what is still unpaid). The credit report lists not only credit card debt, but also lists debt from utility companies, phone companies, hospitals, banks, etc. The credit report then uses these facts to generate your credit score. A credit score is between 500 and 800 points. The higher the number, the better the score.

Another thing that influences your credit score is how many requests have been made for your credit report – so avoid making too many requests – if you have been turned down on several credit card requests or loan requests in a row – this looks bad on your credit report. Things that affect your credit score include payment history, amount of outstanding debt, length of credit history, types of credit, new credit, mortgages, judgments and liens, on-time or late with payments, bankruptcy, number of inquiries.

You should request a copy of your credit report at least once every two years to check for errors. You can request your report from one of three major credit bureaus:

**Equifax** (800) 685-1111

**Experian** (888) 397-3742

**TransUnion** (800) 888-4213

Any errors on your report should be reported immediately as they can affect your chances of obtaining credit in the future.

### **Establishing Good Credit:**

- Open a bank account, whether it is a savings account, a checking account, or both. You should handle your checking account responsibly and make sure you do not bounce checks.
- If you have utilities in your name (electric, gas, and phone) make sure you pay your bills on time and in full.
- Apply for a credit card. Use it sparingly and **be sure** to pay the card on time or you will face late fees and interest rate increases. If you cannot pay the full amount due, make at least the minimum payment by the due date. Be aware of cards with variable rates or promotional rates that start with low interest rates and increase after several months.



## Farm Loans

Establishing good credit is vital for all business owners. Good credit is necessary in order to receive a Farm Business Loan. Types of farm loans include:

**Farm Operating Loan** — A farm operating loan is provided through the United States Department of Agriculture Farm Service Agency, or FSA. It makes direct and guaranteed farm ownership and operating loans to family size farmers and ranchers who cannot obtain commercial credit from the bank, Farm Credit System institution, or other lenders. FSA farm operating loans can be used to purchase land, livestock, equipment, feed, seed, and supplies. These loans can also be used to construct buildings or make farm improvements. The amount of loans delivered through the farm operating loan program is dependent on the status of the farmer. Farmers can be approved for amounts up to \$200,000 with repayment plans anywhere from one to seven years at rates lower than those offered by commercial lenders. Farm operating loans are also offered by other lenders.

**Farm Emergency Loan** — A farm emergency loan is a loan provided by the United States Disaster Assistance Agency or FSA. It provides emergency assistance to help producers recover from production and physical losses due to drought, flooding, other natural disasters, and/or quarantine. Emergency loans can be used to restore or replace essential property, pay all or part of production costs associated with the disaster year, pay essential family living expenses, reorganize the farming operation and refinance some types of debt.

**Disaster Assistance Programs** — FSA provides assistance for natural disaster losses, resulting from drought, flood, fire, freeze, tornadoes, pest infestation, and other calamities through USDA's Risk Management Agency (RMA) and private insurance agents. The prerequisite for assistance is that you have insurance coverage through RMA or Noninsured Crop Disaster Assistance Program (NAP). The Supplemental Revenue Assistance Payments (SURE) Program is one of the most common crop disaster assistance programs. SURE provides crop disaster assistance payments to eligible producers on farms that have incurred crop production or crop quality losses. SURE provides assistance in an amount equal to 60 percent of the difference between the SURE farm guarantee and the total farm revenue. The farm guarantee is based on the amount of crop insurance and NAP coverage on the farm. To be eligible for SURE, producers must have suffered at least a 10 percent production loss on a crop of economic significance.

**Farm Ownership Loan** — FSA makes loans available to family size farmers and ranchers who cannot obtain commercial credit from the bank, Farm Credit System institution, or other lenders. FSA farm ownership loans can be used to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation, or to refinance debt. The amount of loans delivered through the farm ownership loan program is dependent on the status of the farmer and the current program rules.

**Farm Infrastructure Loans**—The third generic loan category is “farm infrastructure loans”, usually five to fifteen years for things like equipment, fencing, breeding livestock, trees, etc.

**Farm Storage Facilities Loan** — A farm storage facility loan is provided through the United States Department of Agriculture Farm Service Agency, or FSA. It provides farm storage facility loans to family size farmers and ranchers who cannot obtain commercial credit from the bank, Farm Credit System institution, or other lenders. The loan is provided through the Commodity Credit Corporation, or CCC Charter Act. It provides loans to producers to build or upgrade farm storage and handling facilities.



Community development financial institutions (CDFIs) are important resources for small farms and businesses. In Monterey County, one key small farm and business lender is

- 1. California Coastal Rural Development Corporation** — Also known as Cal Coastal, it is a CDFI which provides loan capital and other financial services to businesses and farms located on the Central Coast. Types of loans that they offer include:

**Direct Farm Loan Program:** for family farms eligible for FSA guarantee. Funds can be used for crop production, harvest loans, farm ownership, farm improvements or equipment acquisition.

**Microloan Program:** Provide credit and technical assistance to new or expanding small enterprises. Funds can be used for machinery and equipment, inventory, remodeling expenses, leasehold improvements, and accounts receivable.

**Disaster Loan Guarantee:** Designed to provide rapid financing for small businesses and farms hurt by a declared disaster. Borrowers include non-farm businesses eligible for SBA disaster loans and farmers. Funds can be used for replacement of working capital and other business assets.

*For more information contact:*

California Coastal Rural Development Corporation

221 Main St., Ste. 301, Salinas, CA 93901

Ph. (831) 424-1099

Web: [www.calcoastal.org](http://www.calcoastal.org)

There are many options for small farm financing. Some of the options that have been used by farmers at ALBA, or farmers we have met working with partner organizations, include:

- **USDA Farm Service Agency (FSA)** makes direct and guaranteed farm ownership (FO) and operating loans (OL) to family-size farmers and ranchers who cannot obtain commercial credit from a bank, Farm Credit System institution, or other lender. FSA loans can be used to purchase land, livestock, equipment, feed, seed, and supplies. Loans can also be used to construct buildings or make farm improvements. Contact your local FSA office for a review of current program options.

*For local information contact:*

USDA Farm Service Agency

744 La Guardia St., Ste. A, Salinas, CA 93905 Ph. (831) 424-7377

Web: [www.fsa.usda.gov](http://www.fsa.usda.gov)

- **Rabobank AgriFinance** — offers a full range of lending products and crop insurance to producers throughout the United States.

*For local information contact:*

Rabobank, N.A.

301 Main St., Salinas, CA 93901 Ph. (831) 422-6642

Web: [www.rabobankamerica.com](http://www.rabobankamerica.com)

- *American Ag Credit (local)* — Offer a wide range of agricultural loan and leasing services as a member of the Farm Credit System, including:

**Short-Term Loans:** For your day-to-day operating needs. Short-term financing is available as budgeted loans or revolving lines of credit with maturities of one to four years. Funds can be used for: crop production and harvest expenses, livestock and feed purchases, and others.

*For more information contact:*

American Ag Credit

924 E. Blanco Rd., Salinas, CA 93901 Ph. (831) 424-1756

Web: <http://www.agloan.com/>

- Learn about how the Farm Credit System serves beginning farmers from the Farm Credit Council and its Young, Beginning and Small Farms and Ranchers program resources at <http://fccouncil.com/ybs/> and the Field Guide to the New American Foodshed at <http://foodshedguide.org/>

## 5. Day-to-Day Operations Management

Now that you have established the legal structure, secured the physical operations, and complied with the necessary regulations and guidelines, it is time to take a look at the daily management process. What happens on a daily basis in your business? Are there established and adopted operations procedures? If so, are they clear to everyone in your business? Are there benchmarks established to regularly assess operations and adjust procedures when necessary? Is the interrelationship between the operations evident?

Take the time to carefully review the daily operations within your business. The chart below illustrates basic operations that happen in any business, whether it is a business dealing with a product or a service — all businesses deal with production, fulfillment, billing, etc. Each of these operations is integrated and impacts one another. For example, if products are not produced and delivered, then billing cannot happen. As a manager, your overall responsibility is to see that all operations run smoothly. The various checklists that follow the chart below provide you guidelines to keep that operation running smoothly. Feel free to add steps specific to your business. What steps are necessary to keep operations moving well in your business?

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Business Operations in Typical Day-to-Day Management:

1. Production Process
2. Production Standards
3. Product Fulfillment
4. Inventory Management
5. Billing & Collection Process

As a farmer the most common form that you will be working with is the Invoice form. An invoice is a bill issued by one who has provided products and/or services to a customer. All open Invoices are an account receivable on your Balance Sheet.

Please refer to the sample invoice below.



24 Farm Valley Road  
Farmington, AN 51423  
Phone (509) 555-0190 Fax (509) 555-0191

**DATE:** 18-Sep-09

**INVOICE #** 315

**Bill To:** John Appleton  
Healthy Gardens Organic Grocery  
524 Summer Street  
Greenville, AN 51212  
Phone: (509) 555-2400

**Ship To:** Manuel Ortega  
Healthy Gardens Organic Grocery  
524 Summer Street  
Greenville, AN 51212  
Phone: (509) 555-2400 x 206

**Comments or Special Instructions:**

SALESPERSON	P.O. NUMBER	SHIP DATE	SHIP VIA	F.O.B. POINT	TERMS
Hanson	76-81249	7/15/2006	--	--	Due on receipt

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
100	Organic Strawberry (cartons)	3.25	325
75	Organic Blueberry (cartons)	2.5	187.5
36	Prime Grade - Organic tomatoes	8.75	315
			0
		SUBTOTAL	827.5
		TAX RATE	0.05
		TAX	41.38
		SHIPPING & HANDLING	125
		<b>TOTAL</b>	<b>993.88</b>

Make all checks payable to:  
Rich Fields Organic Farm

THANK YOU!

- ❖ **Activity:** Using the existing template for Rich Fields Organic Farms, please complete the following sample invoice:

Customer info:           Organic Express  
                                   1546 Strawberry Lane  
                                   Watsonville, CA 95076

Sale number: 5978  
 Terms: 30 days  
 50 cucumber  
 145 onion  
 13 corn  
 64 strawberry  
 Food items should not be taxed

Prices are: \$15 for corn, \$11 for cucumber, \$18 for strawberries, \$12 onion  
 What is your total invoice amount?

## Inventory Management

- **Inventory** — The quantity of goods and materials on hand; stock. Inventory exists to improve the level of service provided by the business
- **Inventory Management** — Having all the materials, tools, and equipment to successfully complete the job is critical in having a successful business. In order to maintain accurate inventory management please review the following check list:

Do I Have an Established Process? (Yes or No)	Business Operations Checklist: Inventory Management
	• Do I have an inventory control procedure for my business? If so, what is it?
	• Is there a specific person responsible for inventory control?
	• Is a physical inventory taken on a regular basis?
	• Does my product have a minimum level of inventory?
	• Will I need external warehousing? If so, for what length of time and how will this be determined?
	• Have I established a process to monitor inventory management quality?

Please note that produce is not considered traditional inventory. One of the few farming ventures that does have inventory are livestock producers, who keep the same breeding animal for multiple years, and thus are considered inventory at tax time.

Produce is not inventory as it is perishable and you cannot store it for long periods of time. Before harvesting their products, farmers have already had an order placed; unless of course,

they are going to be selling their products at a Farmers Market or Roadside Farmstand. Inventory for a farmer would include items such as boxes for packaging, labels, rubber bands, irrigation supplies, etc.

## Billing and Collection Process

Billing is the process of invoicing customers for goods produced and delivered or services rendered — and reminding them of overdue payments. In other words, it is the request for payment of a debt. Your Billing and Collection Process should be clearly defined. Some questions that you must consider are:

- Do I have a billing and collection process?
- Do I have the right type of billing forms for my business?
- Do my customers know how my billing procedure works?
- Are my customers aware of my internal and external collection processes?
- Are they aware of when late payments go to external collection? When do I write off payments never received?

Collection Agencies: You can use third-party collection agency to collect from customers who are not paying their bills. Collection agencies work on commission and usually take a percentage of the money that they are able to recover. The primary tools of a collection agency are letters and phone calls. These interactions will go from reminders to ultimatums for payments. A collection agency can report the debt to the credit bureaus as a “Collections Account,” including the amount and whether it was paid or not.

You can find information for other agencies online by doing a search for “collections agencies” using a search engine.

## Financial Management Resources

*National Association for the Self-Employed (NASE)* — Supporting the needs of micro-business and the self-employed.  
**<http://www.nase.org>**

*National Business Association* — A not-for-profit association specifically designed and actively managed to assist the Self-Employed and Small Business Community in achieving their professional goals.  
**<http://www.nationalbusiness.org>**

*Online Women’s Business Center* — Helps women to achieve their dreams and improve their communities by helping them start and run successful businesses.  
**<http://www.onlinewbc.gov>**

*Service Corps of Retired Executives (SCORE)* — An organization of volunteers who provide free online and in-person education for small businesses.  
**<http://www.score.org>**

*Society for Hispanic Professionals* — A unique source of opportunity in professional development, educational services, and personal fulfillment for Hispanics.  
**<http://www.nshp.org>**

**Local Professionals in the Monterey Bay region include:**

*California Farmlink*  
303 Potrero Street  
Suite 29-201  
Santa Cruz, CA 95060  
Phone: (831) 425-0303  
Fax: (831) 425-0302  
<http://www.californiafarmlink.org>

*CSUMB Small Business Development Center (SBDC)*  
425 Belden St., Gonzales, CA  
Mail address: P. O. Box 540, Gonzales, CA 93926-9998  
Phone: (831) 675-SBDC

*El Pájaro Community Development Corporation*  
23 East Beach Street #209  
Watsonville, CA 95076  
Phone: 831-722-1224  
[www.elpajarodcd.org](http://www.elpajarodcd.org)

*Central Coast Small Business Development Center*  
Phone: 831-479-6136  
Email: [sbdc@cabrillo.edu](mailto:sbdc@cabrillo.edu)  
[www.centralcoastsbdc.org](http://www.centralcoastsbdc.org)

**Beginning Farmer Assistance**

The file featured below serves as a guide to help farmers develop a business plan. Remember, a business plan is a “road map” that will guide the future of the business. The business plan is a document in continual change because of influences on the business from the outside world.

<http://pubs.cas.psu.edu/freepubs/pdfs/ua405.pdf>

AgPlan helps rural business owners develop a business plan. You can view sample business plans for ideas, and also work with business advisors, educators, or consultants on your own business plan.

<https://www.agplan.umn.edu/>

Partial budgeting is a planning and decision-making framework used to compare the costs and benefits of alternatives faced by a farm business. This site offers useful and easily implemented framework for analyzing these alternatives.

<http://pubs.cas.psu.edu/freepubs/pdfs/ua366.pdf>

The site below is organized to address some of the most common questions about farming risks. Each question is followed by several suggested strategies to address the concern. At the end of each discussion is a list of resources; web links, printed material, and/or organizations that can help you minimize or eliminate risk.

[http://www.smallfarm.org/main/for\\_new\\_farmers/reckon\\_with\\_risk/](http://www.smallfarm.org/main/for_new_farmers/reckon_with_risk/)

**Creating a business plan step by step:** The following section provides a brief framework for your business plan. Please consult with ALBA about specific business planning requirements that may change over time.

1. **Executive summary** (summarize your business)

2. **Business description** (legal structure, location, products or services provided)



3. **Financial plan** (Prepare to define costs of production, outline income statement and cash flow statements, create a balance sheet, and identify sources of funds).

4. **Marketing plan** (what is my product, my market, my customer, my competition, my product price, my promotion strategy)

A Marketing Plan is a detailed description of your marketing efforts and schedule of tasks and those responsible. Please write detailed answers to the following questions on a separate piece of paper and identify those responsible for each important task (if unsure leave generic e.g., advertising agency, web hosting company, distributors, etc.)

- What is the purpose of your marketing efforts?

- What are your marketing objectives?

- What is your product?

- Who is your customer and target market?
- What distribution channel(s) is best for you?
- Who are your top competitors and how will you compete against them? How might you collaborate with them?
- What is your promotional strategy? Brand name? Logo? Branding identity?
- What will be your expected costs and profits from your marketing efforts?

- What risk management factors will you consider in your marketing efforts?

## **5. Administrative Plan**

How many people do you need to work?

Who will work with you?

Describe the position each person will have?

How many hours will they work per season?

What seasons will they work?

How much will you pay them?

Will you be able to provide workers compensation and other insurance?

Over the years, ALBA has learned that it is often useful to challenge yourself to think about a Whole Farm Plan. The elements of this kind of planning are represented below:



## Glossary of Terms

**Assets** — You should document your business assets — the property you own and use in your farming operation. Your records should include the purchase and sales invoices and important information such as: purchase date, purchase price, how asset is used, improvement costs, losses, depreciation (determining how much you need to save to replace it in the future), and selling price.

**Balance Sheet** — The balance sheet tells you how much the business is worth. It is prepared at least annually and contains two parts — Assets and Liabilities. Very simply stated, the balance sheet shows what the business owns (assets), what the business owes (liabilities), and the difference between the two (net worth).

**Billing and Collection Process** — Billing is the process of invoicing customers for goods delivered or services rendered — and reminding them of overdue payments. In other words, it is the request for payment of a debt. Your Billing and Collection Process should be clearly defined.

**Bookkeeping** — The practice or profession of recording the accounts and transactions of a business. To produce the necessary financial statements, you need data that is correct, current, reliable, and documented. Maintaining journals and ledgers will ensure that you have the necessary and correct data.

**Business Liability Insurance** — Business liability insurance protects both your business and personal life from potential financial ruin. Business liability insurance protects your business in the event of a lawsuit for personal injury or property damage by not only covering the damages from the lawsuit but also the legal costs.

**Business Model** — A business model describes how an organization creates, delivers, and captures value — economic, social, or other forms of value. The process of business model design is part of business strategy. In theory and practice the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, offerings, strategies, infrastructure, organizational structures, and operational processes and policies.

**Business Physical Operations** – Business physical operations include the location of your business and the processes, resources, and other tools you will need to transform inputs (raw materials, labor, and capital) into outputs (goods or services).

**Cash Flow Statement** – A cash flow statement allows you to project your cash on hand. It is often created by looking at income and expenses over time. Two or three years of monthly cash flow projections are usually required to obtain a farm business loan.

**Cash overhead Costs** — Cash Overhead costs include land rental expense, office expense, liability insurance, sanitation services, property taxes, property insurance, and investment repairs. Your Total Cash Overhead Costs per acre are calculated by adding your Total Operating Costs/acre and your Total Cash Overhead Costs.

**Credit Report** — A credit report is used as an indicator of your credit worthiness. It reveals information about your past and present payment patterns. A credit report shows whether you pay your bills on time and what existing loans you currently have.

**Cultural costs**—Cultural practices and various techniques used by organic vegetable growers (e.g. cultivation, flaming, solarization, mulches, use of transplants and pre-germination of weed seeds) to produce vegetables often provide an opportunity for the crop to gain an advantage over weeds and out-compete them for nutrients, light and water (2). All of these techniques help reduce hand-weeding costs and make crop production more efficient.

**Employment Practices Liability Insurance** — This is a relatively new form of liability insurance covering the business as well as management. It provides protection for an employer against claims made by employees, former employees, or potential employees by covering discrimination (age, sex, race, disability, etc.), wrongful employment termination, sexual harassment, as well as other employment-related allegations.

**Expense Receipts** — These receipts document the costs that you incur to operate your business. This category can include credit card sales slips, cancelled checks, invoices, and even the petty cash slips for small purchases, etc.

**Gross Receipts** — These receipts document the income that your business receives, including the source and amount. Receipts may include invoices, bank deposit slips, receipt books, etc.

**Harvest Costs** — Harvest costs include hand harvest and field or shed packing. Labor hours for harvest, sorting, grading, and packing (these will vary on a year to year basis depending on crop and field conditions). Harvest costs also include the use of equipment.

**Income Statement** — The income statement tracks your income and expenses over time and calculates your net income; it tells you if the business is profitable or not. To determine your net income, add all business revenue and then subtract all costs and expenses of operating the business. Income statements are usually prepared monthly, quarterly, or annually and are most effective when they include a comparison to financial activity for the same period of time in a previous year (i.e., the first business quarter of 2011 compared to the first business quarter of 2012). Income statements are valuable for business projections, calculating taxes, evaluating the business's progress, and attracting potential investors. Add categories and customize this worksheet as needed, based on the needs of your business.

**Insurance** — Insurance is defined as protection against risks. There are many risks associated with starting a business.

**Inventory** — The quantity of goods and materials on hand; stock. Inventory exists to improve the level of service provided by the business.

**Limited Liability Company (LLC)** — Limited liability companies (LLC), allowed by state statute combine the personal liability protection of a corporation with the tax benefits and simplicity of a partnership. The LLC is a separate and distinct business operation allowing it to obtain a tax ID number, open a bank account, and conduct business, all under its own name. The primary advantage is that the owners are not personally liable for the debts and liabilities of the LLC.

**Partnership** — A partnership is an arrangement where a small number of individuals own the business. There are two types of partnerships; general and limited. In both types of partnerships there is unlimited liability for the debts of the business. In a general partnership, the partners are personally responsible for business debts; if you are liable for a debt caused by the business, your personal assets can be taken as payment. On the other hand, limited liability partner are only responsible for the amount invested in the business.

**Purchase Receipts** — These receipts document items that you purchase to use in the production process or for resale to customers. This category can include cancelled checks, cash register receipts, credit card sales slips, invoices, etc.

**Schedule F** — A Schedule F is used to report your Profit or Loss From Farming. As a farmer you must report your farm income using Schedule F (Form 1040). Income reported on Schedule F includes monies received from cultivating, operating, or managing a farm for profit.

**Sole Proprietorship** — This is the simplest form of organization and probably the most common, mostly due to the fact that it is easiest to form and requires the least amount of legal regulation. Because the sole proprietorship has unlimited liability, all profits and losses belong to the owner. As long as the profits do not exceed a certain amount, there is a tax advantage because the income is taxed at the personal income level.

**Special Expense Receipts** — Receipts for travel, transportation, entertainment etc. These guidelines change on a regular basis, always check with the IRS at <http://www.irs.gov> for current guidelines that govern business expenses.

**Tax Receipts** — Copies of employment records, tax payment receipts, sales receipts etc., must be kept for documentation purposes.

**Workers Compensation Insurance** — Employers must provide employees with Workers' Compensation Insurance. Employers must comply with the law by purchasing and paying an insurance policy, enrolling all workers, informing workers how to report injuries, and processing accident reports appropriately and in a timely manner. Employers must also post announcements in a visible place where all employees have access informing them of their rights to Workers' Compensation. Resources